

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name <b>Hillman Fire Board</b>	County <b>Montmorency</b>
Fiscal Year End <b>12/31/06</b>	Opinion Date <b>July 30, 2007</b>	Date Audit Report Submitted to State <b>August 1, 2007</b>	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
- ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
- ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
- ☒ ☐ The local unit has adopted a budget for all required funds.
- ☒ ☐ A public hearing on the budget was held in accordance with State statute.
- ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
- ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
- ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
- ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
- ☒ ☐ The local unit is free of repeated comments from previous years.
- ☒ ☐ The audit opinion is UNQUALIFIED.
- ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
- ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
- ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	None needed		
Certified Public Accountant (Firm Name) <b>Robertson &amp; Carpenter CPAs, P.C.</b>		Telephone Number <b>989-826-5442</b>		
Street Address <b>P.O. Box 308</b>		City <b>Mio</b>	State <b>MI</b>	Zip <b>48647</b>
Authorizing CPA Signature		Printed Name <b>Robert J. Carpenter</b>		License Number <b>#1101008247</b>

**Hillman Fire Board  
Montmorency County, Michigan  
Financial Report  
With Supplemental Information  
December 31, 2006**

# Hillman Fire Board

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### INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
[Hillman Fire Board](#)  
Hillman, Michigan 49746

We have audited the accompanying financial statements of the governmental activities and the major fund of the Hillman Fire Board as of and for the year ended December 31, 2006, which collectively comprise the Hillman Fire Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Hillman Fire Board's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Hillman Fire Board as of December 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on page 3 through page 7 and page 20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hillman Fire Board's basic financial statements. The accompanying pages of other supplemental information, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Robertson & Carpenter CPAs, P.C.  
Certified Public Accountants  
July 30, 2007

## Management's Discussion and Analysis

As management of the Hillman Fire Board (the "Fire Board"), we offer readers of the Fire Board's financial statements this narrative overview and analysis of the financial activities of the Fire Board for the year ended December 31, 2006.

### Financial Highlights

- The assets of the Fire Board exceeded its liabilities at the close of the most recent fiscal year by \$681,633 (*net assets*). Of this amount, \$214,703 (*unrestricted net assets*) may be used to meet the Fire Board's ongoing obligations.
- The Fire Board's total net assets increased by \$35,924.
- As of the close of the current fiscal year, the Fire Board's general fund, the only governmental fund, reported an ending fund balance of \$214,703, an increase of \$79,553 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$214,703 or 81% percent of total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Fire Board's basic financial statements. The Fire Board's basic financial statements comprise three components: 1) Government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *Government-wide financial statements* are designed to provide readers with a broad overview of the Fire Board's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Fire Board's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fire Board is improving or deteriorating.

The *statement of activities* presents information showing how the Fire Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the Government-wide financial statements present functions of the Fire Board that are principally supported by intergovernmental revenues (*governmental activities*). The governmental activities of the Fire Board consist of public safety (fire protection services) and health and welfare (ambulance services). The Fire Board does not have any business-type activities as of and for the year ended December 31, 2006.

The Government-wide financial statements can be found on pages 7-8 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Fire Board, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Fire Board consist of one category: governmental funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the Government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a Fire Board's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Fire Board maintains one governmental fund. Information is presented in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund.

The Fire Board adopts an annual appropriated budget for its general fund. Budgetary comparison statements or schedules have been provided for the General Fund herein to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 9-10 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12-17 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Fire Board, assets exceeded its liabilities by \$681,633 at the close of the most recent fiscal year.

A portion of the Fire Board's net assets (69%) reflects its investment in capital assets (e.g., land, land improvements, buildings, ambulance equipment, fire equipment and office equipment); less any related debt used to acquire those assets that is still outstanding. The Fire Board uses these capital assets to provide services to the community; consequently, these assets are *not* available for future spending.

### Fire Board's Net Assets

	<b>Governmental</b>	<b>Activities</b>
	<b><u>December 31, 2006</u></b>	<b><u>December 31, 2005</u></b>
Current and Other Assets	\$ 288,061	\$ 210,397
Capital Assets, Net	466,930	513,307
Total Assets	<u>754,991</u>	<u>723,704</u>
Current Liabilities	73,358	75,247
Noncurrent Liabilities	-0-	2,748
Total Liabilities	<u>73,358</u>	<u>77,995</u>
Net Assets:		
Invested in Capital Assets	466,930	510,559
Unrestricted	<u>214,703</u>	<u>135,150</u>
<b>Total Net Assets</b>	<b>\$ 681,633</b>	<b>\$ 645,709</b>

The Fire Board's net assets increased by \$35,924 during the current fiscal year. Unrestricted net assets—the part of net assets that can be used to finance day to day operations, increased by \$79,553 or 59%, during fiscal year 2006.

### Fire Board's Changes in Net Assets

	<u>Governmental</u> <u>Year Ended</u> <u>December 31, 2006</u>	<u>Activities</u> <u>Year Ended</u> <u>December 31, 2005</u>
<b>Revenue:</b>		
Program Revenue:		
Charges for Services	\$ 187,269	\$ 96,694
Operating Grants and Contributions	-0-	-0-
Capital Grants and Contributions	-0-	56,088
General Revenue:		
Intergovernmental	153,625	158,275
Interest Earnings	1,274	319
Other	1,799	2,099
<b>Total Revenue</b>	<u><b>343,967</b></u>	<u><b>313,475</b></u>
<b>Expenses:</b>		
Public Safety	93,002	92,502
Health and Welfare	215,041	164,845
<b>Total Expenses</b>	<u><b>308,043</b></u>	<u><b>257,347</b></u>
<b>Increase in Net Assets</b>	<u><b>35,924</b></u>	<u><b>56,128</b></u>
Net Assets, Beginning of Year	645,709	589,581
<b>Net Assets, End of Year</b>	<b>\$ 681,633</b>	<b>\$ 645,709</b>

**Governmental activities.** The Fire Board's total governmental revenues increased by \$30,492 from last fiscal year. This was primarily attributed to an increase in charges for services revenue and a decrease in capital grant revenue. Expenses increased by \$50,693. The increase was primarily due to increased ALS services, insurance and other expenses.

### Financial Analysis of the Government's Funds

As noted earlier, the Fire Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

As of the end of the current fiscal year, the Fire Board's governmental fund reported an ending fund balance of \$214,703, an increase of \$79,553 in comparison with the prior year. The *unreserved fund balance*, which is available for spending at the Fire Board's discretion, constitutes 100% of this total amount.

The only governmental fund is the General Fund of the Fire Board. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance and total fund balance represent 81% and 81%, respectively, of total general fund expenditures.



## General Fund Budgetary Highlights

The Fire Board's budgets are prepared in accordance with Michigan Law. The only budgeted fund is the General Fund. The General Fund budget was amended in a legally permissible manner during the year.

## Capital Asset and Debt Administration

**Capital assets.** The Fire Board's investment in capital assets for its governmental activities as of December 31, 2006, amounted to \$466,930 (net of accumulated depreciation). Investment in capital assets includes land, land improvements, buildings, ambulance equipment, fire equipment and office equipment. Additions during the year totaled \$10,410 for the year.

### Fire Board's Capital Assets (net of depreciation)

	<u>December 31, 2006</u>	<u>December 31, 2005</u>
Land	\$ 5,000	\$ 5,000
Land Improvements	296	375
Buildings	51,710	52,442
Ambulance Equipment	100,080	118,588
Fire Equipment	305,575	333,078
Office equipment	4,269	3,824
<b>Total</b>	<b>\$ 466,930</b>	<b>\$ 513,307</b>

Additional information on the Fire Board's capital assets can be found in note 7 on page 18 of this report.

## Factors Bearing on the Fire Board's Future

The following factors were considered in preparing the Fire Board's budget for the year ending December 31, 2007:

- The 2007 budget anticipates a 4% increase in revenue and an increase in expenses of 10%. The expense increase reflects increases in services and wages. Our budgets were prepared with these factors in mind and will need to be revised as needed.

## Requests for Information

This financial report is designed to provide a general overview of the Fire Board's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Hillman Fire Board  
PO Box 59  
Hillman, MI 49746

## **Basic Financial Statements**

Hillman Fire Board  
Statement of Net Assets  
December 31, 2006

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ 187,171
Receivables: (Note 4)	
Receivable-other	100,890
Receivable from other governments	-
Capital assets-net (Note 7)	<u>466,930</u>
Total assets	<u>754,991</u>
 <b>Liabilities</b>	
Current Liabilities	
Accounts payable	-
Accrued expenses	1,710
Deferred revenue	<u>71,648</u>
Total current liabilities	<u>73,358</u>
 <b>Net Assets</b>	
Invested in capital assets, net of related debt	466,930
Unrestricted	<u>214,703</u>
Total net assets	<u>\$ 681,633</u>

See accompanying notes

Hillman Fire Board  
Statement of Activities  
Year Ended December 31, 2006

Functions/Programs	<u>Program Revenues</u>				<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants</u>	<u>Capital Grants</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
Governmental Activities					
Public safety	\$ 93,002	\$ 3,000	\$ -	\$ -	\$ (90,002)
Health and Welfare	<u>215,041</u>	<u>184,269</u>	<u>-</u>	<u>-</u>	<u>(30,772)</u>
Total governmental activities	<u>\$ 308,043</u>	<u>\$ 187,269</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(120,774)</u>
General Revenues:					
Intergovernmental					153,625
Interest earnings					1,274
Other					<u>1,799</u>
Total general revenues					<u>156,698</u>
<b>Change in Net Assets</b>					35,924
<b>Net assets</b> - beginning of year					<u>645,709</u>
<b>Net assets</b> - end of year					<u>\$ 681,633</u>

See accompanying notes

Hillman Fire Board  
Governmental Funds  
Balance Sheet  
December 31, 2006

	<u>General Fund</u>
<b>Assets</b>	
Cash and investments	\$ 187,171
Receivables:	
Receivables - Ambulance patients	100,890
Receivable from other governmental units	-
Total assets	<u>\$ 288,061</u>
<b>Liabilities</b>	
Accounts payable	\$ -
Accrued expenses	1,710
Deferred revenue	<u>71,648</u>
Total liabilities	<u>73,358</u>
<b>Fund balances</b>	
Unreserved:	
General Fund	<u>214,703</u>
Total fund balances	<u>214,703</u>
Total liabilities and fund balances	<u>\$ 288,061</u>

**Fund Balances - Total Governmental Funds** \$ 214,703

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial financial resources, and are not reported in the funds.

The cost of capital assets is	\$ 1,095,298	
Accumulated depreciation is	<u>(628,368)</u>	
		466,930

**Net Assets of Governmental Activities** \$ 681,633

See accompanying notes

Hillman Fire Board  
Governmental Funds  
Statement of Revenues and Expenditures  
and Changes in Fund Balances  
Year Ended December 31, 2006

	<u>General Fund</u>
<b>Revenues</b>	
Intergovernmental	\$ 153,625
Charges for services	187,269
Interest earnings	1,274
Other	<u>1,799</u>
Total revenues	<u>343,967</u>
<b>Expenditures</b>	
Current:	
Public safety	59,145
Health and welfare	192,044
Capital outlay	10,410
Debt service	<u>2,815</u>
Total expenditures	<u>264,414</u>
<b>Excess of revenues over (under) expenditures</b>	79,553
<b>Fund balances - Beginning of year</b>	<u>135,150</u>
<b>Fund balances - End of year</b>	<u><u>\$ 214,703</u></u>

See accompanying notes

Hillman Fire Board  
Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
Year Ended December 31, 2006

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	79,553
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Amounts reported for governmental activities are different because:

Government funds report capital outlays as expenditures;  
in the statement of activities these costs are allocated  
over their estimated useful lives as depreciation.

Depreciation expense	\$	(56,787)	
Capital Outlay		<u>10,410</u>	
			(46,377)

Repayments of capitalized lease principal is an  
expenditure in the governmental funds, but not in  
the statement of activities (where it reduces  
long term debt)

	<u>2,748</u>
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<b>Change in Net Assets of Governmental Activities</b>	\$	<u><u>35,924</u></u>
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See accompanying notes

Hillman Fire Board  
Notes to Financial Statements  
December 31, 2006

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Hillman Fire Board ("the Fire Board") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the more significant policies used by the Fire Board:

**Reporting Entity**

The Hillman Fire Board is a joint area Fire Board that provides both Fire and Ambulance services. The Board serves four governmental units - Rust Township, Hillman Township, Montmorency Township and the Village of Hillman..

The Fire Board consists of nine members. Representation is as follows: Montmorency Township - 3 members, Hillman Township - 3 members, Rust Township - 2 members, Village of Hillman - 1 member.

The pro-rata share of financing costs as provided by the by the interlocal agreement is based on the state equalized valuation (per the Montmorency County Equalization Department) of each unit and the current population (per the Montmorency County Clerk).

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational financial relationships that determine which of the governmental organizations are a part of the Fire Board's reporting entity, and which organizations are legally separate, component units of the Fire Board. Based on the application criteria, the Fire Board does not contain any component units.

**Government-wide and Fund Financial Statements**

The Government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Fire Board. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Fire Board's government-wide activities are considered governmental activities. The Fire Board does not have any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a certain function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Revenues not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds.



**Note 1 - Summary of Significant Accounting Policies (Continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Government fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Fire Board considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Annual contributions from member units and interest earnings associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when the cash is received by the Fire Board.

The Fire Board reports the following major governmental fund:

The General Fund is the Fire Board's primary operating fund. It accounts for all financial resources of the Fire Board, except those required to be accounted for in another fund.

Amounts reported as program revenue include: (1) charges to customers for goods, services or privileges provided, (2) operating grants and contributions and (3) capital grants and contributions. General revenue includes interest earnings and other revenues.

**Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - All trade receivables are shown net of an allowance for uncollectible amounts, if any.

**Capital Assets** - Capital assets, which include land, buildings and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Fire Board as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation.

Hillman Fire Board  
Notes to Financial Statements  
December 31, 2006

**Note 1 - Summary of Significant Accounting Policies (Continued)**

Buildings, machinery and equipment are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Buildings and additions	50 years
Machinery and equipment	8 -15 years
Office equipment	5 - 10 years

**Compensated Absences** - There is no liability for compensated absences reported in the government-wide financial statements since no Fire Board employees are provided with sick or vacation pay benefits.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriating or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Fire Board has not designated any fund equity as of December 31, 2006.

**Comparative Data/Reclassifications** - Comparative data is not included in the Fire Board's financial statements.

**Note 2 - Stewardship, Compliance and Accountability**

**Budgetary information** - Annual budgets are adopted on a basis consistent with generally accepted accounting principles and state laws for the general fund. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the line item level. State law requires the Fire Board adopt its budget by January 1. The budget was also approved by the member units of governments as required by the joint operating agreement. State law permits the Fire Board to amend its budget during the year. During the year, the budget was amended in a legally permissible manner.

A new joint fire board agreement was approved by the participating units on May 20, 2002. The agreement provides financial support as follows: Rust Township, Montmorency Township, and the Village of Hillman's support is based 50% on the last finalized State Equalized Value (SEV) and 50% on current population. Hillman Township's support is based 50% on the last finalized SEV, (including the Village of Hillman's SEV), and 50% on the current population, minus the Village of Hillman's population. The SEV amounts are obtained from the Montmorency County Equalization Department and the population amounts are obtained from the Montmorency County Clerk.

Hillman Fire Board  
Notes to Financial Statements  
December 31, 2006

**Note 2 - Stewardship, Compliance and Accountability** - continued

Excess of expenditures over appropriations in the General Fund are as follows:

	<u>Appropriation</u>		<u>Expenditure</u>		<u>Variance</u>
General Fund:					
Public Safety: Medicare & social security	\$ 100	\$	344	\$	244
Health and Welfare: Contracted services - firemen	518		918		400

**Note 3 - Deposits and Investments**

Michigan Compiled Laws, Section 129.91 authorizes the Fire Board to make deposits and investments in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Fire Board is also allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Fire Board has designated one financial institution for the deposit of Fire Board funds. The investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investments in bank accounts and CDs, but not the remainder of State statutory authority as listed above.

The Hillman Fire Board's deposits and investment policy are in accordance with statutory authority.

At year end, the Hillman Fire Board's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Carrying Amounts</u>
Cash and cash equivalents	\$ 187,171
Total	<u>\$ 187,171</u>

The breakdown between deposits and investments for the Fire Board is as follows:

Deposits (Checking and savings accounts)	\$ 151,207
Certificates of deposit	35,965
Total	<u>\$ 187,172</u>

The deposits of the Fire Board were reflected in the accounts of one financial institution, of which \$135,965 is covered by federal depository insurance.

Hillman Fire Board  
Notes to Financial Statements  
December 31, 2006

**Note 4 - Receivables**

Receivables as of year-end for the Fire Board's major fund, including applicable allowances for uncollectible accounts, are as follows:

Receivables:	General Fund
Ambulance patient services	\$ 100,890
Other governmental units	-
	<u>\$ 100,890</u>

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Accounts Receivable		
Deferred revenue portion	\$ -	\$ 71,648
Total deferred revenue	<u>\$ 0</u>	<u>\$ 71,648</u>

**Note 5 - Long Term Debt**

The Fire Board entered into a capitalized lease for the purchase of fire equipment on November 4, 2004. The original amount of the lease was \$6,895. The required monthly payments of \$313 commenced on December 4, 2004 and concluded on October 4, 2006. The interest rate was 3.99%. Long term debt activity can be summarized as follows:

	Balance 1/1/06	Additions (Reductions)	Balance 12/31/06
Governmental Activities:			
Capitalized lease	\$ 2,748	\$ (2,748)	\$ -
Total	<u>\$ 2,748</u>	<u>\$ (2,748)</u>	<u>\$ -</u>

**Note 6 - Risk Management**

The Hillman Fire Board is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent insurance companies. Settled claims from these risks have not exceeded insurance coverage for the last three years.

Hillman Fire Board  
Notes to Financial Statements  
December 31, 2006

**Note 7 - Capital Assets**

Capital assets activity of the Fire Board's Governmental activities were as follows:

	Balance January 1, 2005	Additions	Deletions	Balance December 31, 2006
Capital assets not depreciated:				
Land	\$ 5,000	\$ -	\$ -	\$ 5,000
Capital assets being depreciated:				
Land Improvements	1,577			1,577
Buildings	130,484	2,820	-	133,304
Ambulance Equipment	279,194	2,112	-	281,306
Fire Equipment	663,723	3,909	-	667,632
Office equipment	4,910	1,569	-	6,479
Subtotal	<u>1,084,888</u>	<u>10,410</u>	<u>-</u>	<u>1,095,298</u>
Accumulated Depreciation				
Land Improvements	1,202	79	-	1,281
Buildings	78,042	3,553	-	81,595
Ambulance Equipment	160,606	20,619	-	181,225
Fire Equipment	330,645	31,412	-	362,057
Office equipment	1,086	1,124	-	2,210
Subtotal	<u>571,581</u>	<u>56,787</u>	<u>-</u>	<u>628,368</u>
Net capital assets being depreciated	<u>513,307</u>	<u>(46,377)</u>	<u>-</u>	<u>466,930</u>
Governmental Activities				
Total Capital Assets net of Depreciation	\$ <u>513,307</u>	\$ <u>(46,377)</u>	\$ <u>-</u>	\$ <u>466,930</u>

Depreciation expense was charged to programs of the Fire Board as follows:

Governmental activities:	
Public safety	\$ 33,790
Health and Welfare	<u>22,997</u>
Total governmental activities	\$ <u>56,787</u>

## **Required Supplemental Information**

Hillman Fire Board  
 Budgetary Comparison Schedule - General Fund  
 Year Ended December 31, 2006

	Budgeted Amounts			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 135,150	\$ 135,150	\$ 135,150	\$ -
<b>Resources (Inflows)</b>				
Intergovernmental	153,625	153,625	153,625	-
Charges for services	173,000	173,000	187,269	14,269
Interest earnings	1,000	1,000	1,274	274
Other	-	-	1,799	1,799
Amounts available for appropriation	<u>462,775</u>	<u>462,775</u>	<u>479,117</u>	<u>16,342</u>
<b>Charges to Appropriations (Outflows)</b>				
Current				
Public Safety	71,923	71,923	59,145	(12,778)
Health and Welfare	<u>222,988</u>	<u>225,325</u>	<u>192,044</u>	<u>(33,281)</u>
Total	294,911	297,248	251,189	(46,059)
Capital Outlay	21,914	21,914	10,410	(11,504)
Debt Service	<u>3,800</u>	<u>3,800</u>	<u>2,815</u>	<u>(985)</u>
Total charges to appropriations	<u>320,625</u>	<u>322,962</u>	<u>264,414</u>	<u>(104,607)</u>
<b>Fund Balance - end of year</b>	\$ <u>142,150</u>	\$ <u>139,813</u>	\$ <u>214,703</u>	\$ <u>120,949</u>

## **Supplemental Information**



Hillman Fire Board  
General Fund  
Detail of Revenues - Budget and Actual  
Year Ended December 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Revenues			
Intergovernmental:			
Hillman Township	\$ 59,100	\$ 59,100	\$ -
Montmorency Township	52,110	52,110	-
Rust Township	21,722	21,722	-
Village of Hillman	20,693	20,693	-
Total intergovernmental	<u>153,625</u>	<u>153,625</u>	<u>-</u>
Charges for services	173,000	187,269	14,269
Interest	1,000	1,274	274
Other	<u>-</u>	<u>1,799</u>	<u>1,799</u>
Total Revenues	<u>\$ 327,625</u>	<u>\$ 343,967</u>	<u>\$ 16,342</u>

Hillman Fire Board  
General Fund  
Public Safety  
Detail of Expenditures - Budget and Actual  
Year Ended December 31, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Current:			
Public Safety:			
Chief's wages	\$ 4,500	\$ 4,500	\$ -
Workmen's compensation	1,270	1,270	-
Office supplies	700	352	348
Gas and oil	953	953	-
Bookkeeping service	500	478	22
Per diem meetings	500	120	380
Audit	30	-	30
Legal	500	-	500
Snow plowing	500	240	260
Telephone	1,000	612	388
Training and travel	5,000	3,221	1,779
Physicals and vaccines	500	-	500
Medicare & social security	100	344	(244)
Insurance	11,720	11,720	-
Utilities	1,500	1,303	197
Heating	2,500	2,358	142
Sanitation	250	137	113
Building repairs	2,000	1,724	276
Communication repairs	1,500	493	1,007
Vehicle repairs	5,296	3,746	1,550
Equipment repairs	3,704	3,704	-
Food expense	300	39	261
Membership dues	100	-	100
Equipment (non capitalized)	13,500	9,978	3,522
Safety	1,000	528	472
Grants expense	500	-	500
Contracted services - firemen	12,000	11,325	675
Total Public Safety	<u>71,923</u>	<u>59,145</u>	<u>12,778</u>
Capital Outlay	<u>11,914</u>	<u>6,413</u>	<u>5,501</u>
Debt Service			
Principal	3,500	2,748	752
Interest	300	67	233
Total Debt Service	<u>3,800</u>	<u>2,815</u>	<u>985</u>
	<u>\$ 87,637</u>	<u>\$ 68,373</u>	<u>\$ 19,264</u>

Hillman Fire Board  
General Fund  
Health and Welfare  
Detail of Expenditures - Budget and Actual  
Year Ended December 31, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Current:			
Health and Welfare:			
Coordinator's wages	\$ 15,125	\$ 14,922	\$ 203
Attendant's wages	34,000	32,700	1,300
Training coordinator wage	4,000	4,000	-
Workmen's compensation	1,500	1,270	230
Office supplies	1,700	692	1,008
Collection expenses	200	-	200
Medical supplies	6,211	6,211	-
Accumulated billing service	19,224	17,269	1,955
ALS services	83,000	71,565	11,435
Community training center	1,500	1,034	466
Gas and oil	4,500	4,436	64
Secretary wages	600	600	-
Treasurer wages	1,200	1,200	-
Bookkeeping service	500	478	22
Per diem meetings	1,500	60	1,440
Audit	100	-	100
Legal	300	-	300
Snow plowing	500	240	260
Social security & medicare	7,000	4,439	2,561
Telephone	2,000	1,484	516
Training and travel	8,000	5,115	2,885
Physicals and vaccines	247	28	219
Insurance	11,000	10,954	46
Utilities	1,500	1,303	197
Heating	2,500	2,358	142
Sanitation	250	137	113
Building repairs	2,000	1,204	796
Communication repairs	1,000	74	926
Vehicle repairs	3,000	2,466	534
Equipment repairs	1,200	-	1,200
Onaway - contracted services	3,750	3,750	-
Memberships and dues	200	125	75
Licenses	500	200	300
Contracted services - firemen	518	918	(400)
Equipment (non capitalized)	5,000	812	4,188
Total Health and Welfare	<u>225,325</u>	<u>192,044</u>	<u>33,281</u>
Capital Outlay	<u>10,000</u>	<u>3,997</u>	<u>6,003</u>
	<u>\$ 235,325</u>	<u>\$ 196,041</u>	<u>\$ 39,284</u>



Robert J. Carpenter, CPA  
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July 30, 2007

Board of Trustees  
Hillman Fire Board  
Montmorency County, Michigan

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hillman Fire Board as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Hillman Fire Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the a governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Fire Board's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Fire Board's financial statements that is more than inconsequential will not be prevented or detected by the Fire Board's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

### **Lack of adequate controls to produce full-disclosure GAAP basis financial statements.**

*Requirement:* All Michigan governmental units are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). This is a responsibility of the Fire Board's management. The preparation of financial statements

in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data, and (2) reporting government-wide and fund financial statements, including the related footnotes.

*Condition:* The Fire Board, as is common with smaller and medium-sized entities, has historically relied on its independent external auditors to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Fire Board's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot by definition be considered part of the government's internal controls.

*Cause:* This condition was caused by the Fire Board's decision that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Fire Board to perform this task internally.

*Effect:* The result of this condition is that the Fire Board lacks internal controls over the preparation of financial statements in accordance with GAAP, and instead relies, in part, on its external auditors for assistance with this task.

*View of responsible officials:* The Fire Board has evaluated the cost vs. benefit of establishing internal controls over the preparation of financial statements in accordance with GAAP, and determined that it is in the best interests of the Fire Board to outsource this task to its external auditors, and to carefully review the draft financial statements and notes prior to approving them and accepting responsibility for their content and presentation.

This communication is intended solely for the information and use of management, the Fire Board Board, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

Robertson & Carpenter CPAs, P.C.  
Certified Public Accountants  
Mio, Michigan